



Managing Finance In a Digital World

A concise note kit.



for CIMA Operational Level
by financials team



MANAGING FINANCE IN A DIGITAL WORLD

All the notes you need to pass your
CIMA E1 exam

Trial version

V 1.3

© 2022 Finanicals

Written by the finanicals team

Visit www.finanicals.com for more information

Welcome

This document is designed to assist students worldwide to pass their CIMA E1 exams. We aim to provide clear, concise, and best notes to our students as much as possible.

License

You need to purchase a license to use this document. The document is not meant to be shared with anyone without valid legal permission. The license to use the document will be granted to you upon the purchase of the document.

A single license that you purchased is valid **only for you**. And it allows you to **read** the document, but not to replicate, share or distribute the document.

Do note that we allow you to download a PDF copy, unlike many publishers. Therefore, you are responsible for not sharing it with anyone who hasn't purchased a copy.

Trial version

We provide a trial version of this note kit that includes the introduction section and the first lesson. This trial version can be shared with anyone. **You are currently using the trial version.** Click [here](#) to view the online version of the trial.

Where to purchase

You can visit our website, www.finanicals.com to purchase a copy of this note kit.

Purchase

Contact us

You can always visit our website for more information. Feel free to email us with any concerns you may have. We highly value your feedback and any suggestions for further improvements.

Website - www.finanicals.com

E-mail - thefinanicals@gmail.com

[Visit Website](http://www.finanicals.com)[E-mail us](mailto:thefinanicals@gmail.com)

Feedback

In case you have anything to say to us including feedback, suggestion, exam results, or new content requests, you can use the following online [contact form](#). Otherwise, you can directly write an email to us. We'll respond to you as soon as possible.

[Contact Form](#)

Request access to other methods

In case you purchased the note kit in one platform and you need to read it using any other reading method [[explained here](#)], please fill in the following [access request form](#). We can grant access to your Google account. Therefore, make sure you provide us with a valid Gmail address.

[Request access](#)

Support us

In case you like our work, you can support us. Your support will enable us to provide a better service to finance students around the world. You can support us in a number of ways.

First of all, pass your exams. We always try our best to provide quality study material to our students in the simplest possible way. Therefore, try your best to pass your exam from your end. We would always be glad to hear your results. Please let us know when you pass your exam using our contact form or by writing an email.

We always value your feedback. In case you can suggest any improvements, please let us know. You can also notify us with any question that was tested in your exam but not included in the note kit or in any "[potential exam testing points](#)" section. The potential exam testing points sections are powered by our student feedback and our team members' feedback to a certain degree. Your feedback may support future students in their exams. [[How to send feedback](#)]

You can also support us by purchasing a note kit. If you like the trial version, you can proceed to purchase a license. This note kit is the best concise note kit.

In case you are satisfied with our work, you can share the link to the [trial version](#) with your friends. Do recommend us if you think this would help them.

You can also support us through the **Buy me a coffee** website [[Link](#)]. In case you didn't purchase a license, you can at least make a donation when possible.

How to read

You can read this book in a few different ways. Try these methods to decide what suits you the best. The first 2 methods will enable you to take full advantage of cloud computing features provided by google docs.

1. Using the google docs online version
2. Using the google docs app
3. Download a PDF version
4. Print a PDF copy

The above list is based on the order we recommend using the document. You can try and use a method that suits the best for you.

Using the google docs online version

You can use the google docs version to read this document using your web browser. This is compatible with a variety of computers including windows PCs and Macs. The navigation within the document would be easier as the app allows you to see the outlines in a convenient way and allows you to use links in the document. Any updates we make to the note kit will be reflected as soon as we publish them.

Using the google docs app

You can install the google docs app on your smartphone or tablet to read the notes on the go. The app will allow you to view the document in a way that suits your mobile's screen size so that you don't have to zoom in or out all the time when you are studying. The app allows you to use dark mode, which could be useful in many cases. The navigation within the document would be easier as the app allows you to see the outlines in a convenient way and allows you to use links in the document. Any updates we make to the note kit will be reflected as soon as we publish them.

Download a PDF version

You can download a PDF version of this document to easily read it using a PDF reader app. Most modern web browsers support reading PDF files out of the box. On the other hand, most smartphones have the same capability as they come with a PDF reader app by default. The navigation within the document would be possible as most PDF readers allow you to see the outlines in a convenient way and allow you to use links in the document. It might take longer for the updates we make to the note kit to reflect on PDF versions.

Print a PDF copy

You can print a PDF copy to have a physical version of the document. You can try this method if you prefer paper notes more than a digital version. Do note that the navigation within the document would be possible as you would do with any other traditional book by referring to the content page. However, you wouldn't be able to use any links. You would have to open the digital edition to visit those links for additional reading. The update we make to the document will not be reflected in the printed version. You might have to reprint or use a digital version to see the updates.

Included things

You might see the following things within this book.

Contents section

A list of topics available in the book can be seen in the [contents](#) section. A more detailed list of topics with sup-topics is available in the [index](#) section.

Lessons

The lessons are presented in a concise way with all the content you need to pass your exams. The syllabus is divided into 12 lessons. More explanations on how the lessons align with the syllabus are available below.

Changelogs

We might make updates to this document based on our student feedback and various other reasons. A log of the changes we made will be available at the end of the book. [[here](#)]

Note components

You might see the following components within the lessons

Definitions

The definitions in this book are usually presented in a squared space. A definition is a statement of the exact meaning of a word. We usually try to keep definitions as much as similar to the official CIMA definitions as they could be tested.

This right here is an example of a definition. This is what definitions look like in the book.

Introductions

Each lesson has a brief introduction at the beginning which explains what we are going to learn in each lesson. It is important to know what you are going to learn and your progress. Otherwise, you would lose track and end up being confused.

Potential exam points

At the end of each lesson, there will be a list of potential exam testing points. The points in these lists are included in the list because they've been tested in the past CIMA exams (according to our student feedback), presented in official CIMA exam practice kits, or tested in the CIMA aptitude programs.

Note that anything **outside of these points** could also be tested in the actual exam. The exam is highly dynamic and machine-generated and there are no past papers available for this exam. Questions are usually within the syllabus, and this note collection covers all the aspects of the syllabus.

The exam rarely includes very difficult questions that are related to the subject scope but are a bit outside of the syllabus. These questions might decide the prize winners. To answer such a question, you might need to develop a good understanding and a good general knowledge of subject matters.

Notes

Notes in the document might provide you with information and hint about using the document. For example, what to do with a section (study, skip for now), the probability of a topic being tested in the exam, or where we would tackle a given concept again in the syllabus

This is an example for a note. This section contains user instructions

Sidenotes

In case it is necessary to explain additional concepts, we would be using sidenotes. Sidenotes are often used to explain concepts further and to provide examples

*This is an example sidenote. This would explain something, in addition,

Links

There are links within the document that might take you to external websites, resources, or to another section of this document.

[Sample Link](#)

Additional reading

At the end of each lesson, there will be a list of additional reading material. Additional reading material might include resources, reference documents, articles, research papers, and books. We might also provide links to these resources. In any case, if those are not provided, or the provided links don't work anymore, you can try searching for them on the internet or in a library.

Link to contents page

You can use the links in the header (which appears at the top of all the pages) to quickly visit the contents section or the index section. This works only in the PDF version. You can easily use the left panel to visit any section easily in the google docs version.

E1 | Managing finance in a digital world



Visit contents page

2019 syllabus



Visit index page

Contents

Here's the list of lessons and topics we are about to discuss throughout this book

Welcome	3
Contents	8
CIMA syllabus	9
L1. Role of the finance function	20
L2. Activities of finance professionals	72
L3. Technology affecting business and finance	90
L4. How the finance function uses digital technology	114
L5. Data and the finance function	146
L6. Usage of data in Creation and Preservation of value	167
L7. Shape and structure of the finance function	185
L8. Activities in different levels of the finance function	212
L9. Operations and finance	245
L10. Marketing and sales and finance	272
L11. HR and finance	296
L12. IT and finance	317
Index	335
Changelog	354

CIMA syllabus

CIMA provide 2 main educational qualifications, namely

1. CIMA Certificate in Business Accounting (Cert BA)
2. CIMA Professional qualification

CIMA certificate in business accounting is a prerequisite to CIMA professional qualification. You have to complete the CIMA Certificate in Business Accounting to proceed to CIMA professional qualification. Optionally, you can try obtaining [exemptions](#) for a qualification you hold to get into the CIMA professional qualification straight without doing the certification. For exemptions or other entry paths, you should contact your nearest CIMA office to obtain up-to-date details.

The CIMA Certificate in Business Accounting consists of 4 subjects, namely, BA1, BA2, BA3, and BA4. Students have to sit for one OTQ paper per subject. Cert BA exams are 120 minutes long. BA1, BA2, and BA3 each contain 60 objective test questions, while BA4 contains 85 objective test questions.

The professional qualification is divided into 3 levels

1. Operational
2. Managerial
3. Strategic



Students should complete 3 papers and a case study in each of these stages. The 3 papers in each stage are focused on 3 subject areas. These areas are known as pillars. The 3 pillars are

1. Enterprise – Focused on theory parts of management
2. Performance – Focused on management accounting
3. Financial – Focused on financial accounting

After completing the certificate level, students can sit for the 3 operational levels OTQ papers. After completing all 3 of those papers, students can sit for the operational case study. After passing the operational case study, students can continue on to the 3 OTQs at the managerial level. The same process repeats until the completion of the strategic case study.

In this document, we are focused on the E1 subject, “Managing Finance in a Digital World”. The E1 subject is the first enterprise pillar subject of the CIMA qualification.

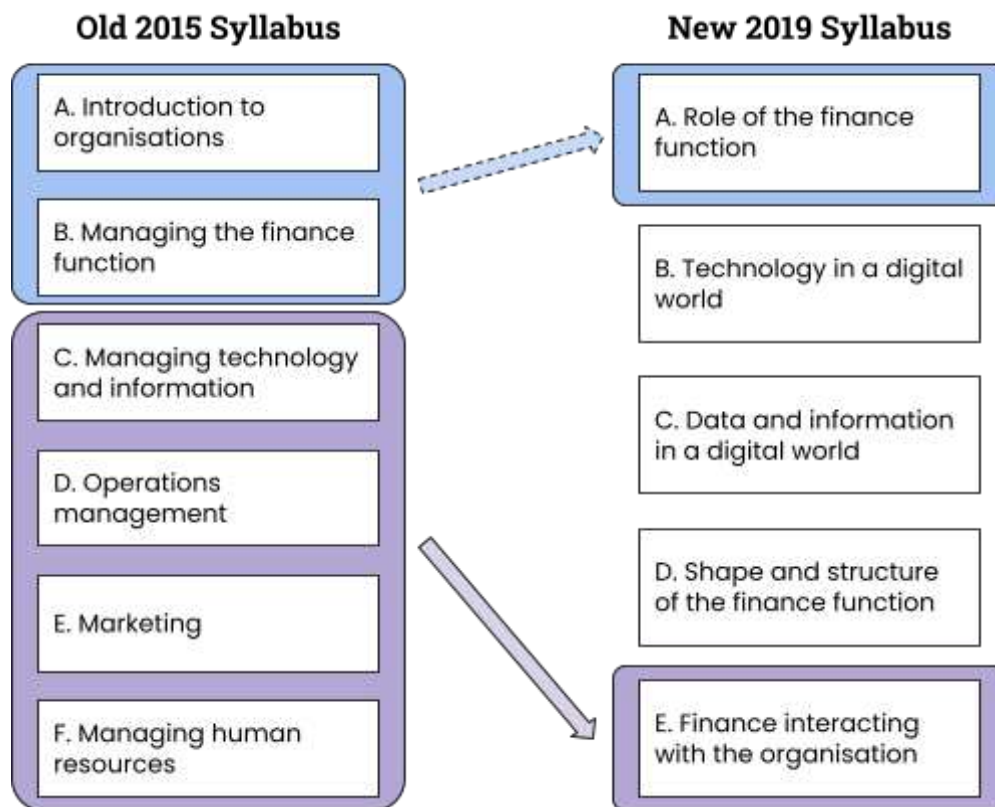
E1: Managing Finance in a Digital World

The CIMA changed some key areas in the E1 subject in the 2019 edition of the syllabus. There used to be more theory on business administration in E1 in the previous edition of the syllabus. This time, they reduced the weight on generic business administration and management theories and added more content on trending subjects.

The syllabus of the E1 subject is focused on 5 key areas

- A. Role of the finance function
- B. Technology in a digital world
- C. Data and information in a digital world
- D. Shape and structure of the finance function
- E. Finance interacting with the organization

Let's compare what's new in the 2019 syllabus with the old 2015 syllabus.



The first 2 units in the 2015 syllabus were about organizations, operating environments, and the basic activities of the finance function. The new syllabus has a single unit (instead of 2) that focuses on those areas.

Note that the previous syllabus contained a lot of content on Operations management, Marketing, Managing human resources, and Managing technology and information. Those areas had a unit per area in the previous syllabus. However, in the 2019 syllabus, all of those areas share a single syllabus unit (instead of 4).

3 New areas have been introduced in the new syllabus. Therefore, brand new content on

1. Technology (industry 4.0, and IT, New technologies)
2. Data and information (Data privacy, Big data, Business intelligence)
3. Modern finance departments (Job roles, the impact of automation, etc...)

are present in this syllabus

You can download the official document on the CIMA E1 syllabus published by the Global CGMA University and Academic Center of Excellence [[pdf](#)]. This document contains the resources and details on the syllabus.

E1 Exam

You can download the official CIMA exam blueprints from their official website, www.cimaglobal.com [[link](#)]. You can obtain a scaled score between 0 and 150 for this paper. 100 or above represents a pass. [[source](#)]. The exam is machine generated by selecting random questions from a large question database and therefore is highly dynamic. The same paper you face will not be faced by anyone. There are no past papers for this exam.

The E1 paper is what we would recommend taking 1st at the operational level of the CIMA professional qualification. This is because

- E1 is an exam with one of the highest pass rates [[source](#)]
- The operational case study typically tests more concepts in P1 and F1 than in E1, therefore it would be easier to face the case study right after completing F1 and P1.

This is of course our opinion, and according to many of our student's suggestions. You can decide to take exams in any order that would suit best to you.

Facts about the E1 paper

- 120 minutes long
- contains 60 questions
- Pass mark is roughly 67% (100 out of 150)
 - At least 40 answers should be correct
 - Which means you can still pass with 20 answers being incorrect
- A CIMA paper with a high pass rate (about 80%)
- Focused on theory (Usually, no calculations present)
- An OTQ paper that might contain
 - MCQs with one correct answer
 - MCQs with a specific number of correct answers
 - True or false question (1 or more statements)
 - Matching pairs
 - Labelling graphs, images, diagrams
 - Filling the blanks

Resources

The official syllabus document mentioned in the previous section provides references to subject resources. Here's a brief summary of some important resources

CIMA research papers and articles

The syllabus, especially the brand new areas in the syllabus are based on some research papers published by CGMA.

Creating a vision for future series

The syllabus includes many aspects introduced in the “Creating a vision for the future” research published by CIMA. You can download the paper that introduces this research from their website [[page](#)] [[pdf](#)]



The series has 4 papers.

1. Changing role and mandate of finance [[PDF](#)]
2. Changing technology and finance [[PDF](#)]
3. Changing shape of the finance function [[PDF](#)]
4. Changing competencies and mindsets [[PDF](#)]

CGMA published webinars that explain these papers by the original authors. You can watch those for free on the official CIMA website [[here](#)]. You can also download digital copies of the articles for free at the same location.

Re-inventing finance for a digital world

This briefing paper summarizes all 4 research papers in the Creating a vision for future series. In addition, there are some new concepts introduced as well.

This white paper tells the story of the research underpinning CGMA's views on how new competencies are emerging in a digital world. It describes their implications for finance professionals, employers, academics and tuition providers, regulators, and policymakers.

You can download a PDF of this paper from their official website [[here](#)] [[PDF](#)]

Other CGMA whitepapers and articles

Here's a list of some other whitepapers we might refer to in this syllabus

1. Unlocking business intelligence
2. CGMA briefing – Big Data
3. From insight to impact – Unlocking opportunities in big data [[PDF](#)]

CIMA official study text

We studied the following books before preparing this note. Some parts of this document might be based on the knowledge we obtained through studying the following publications.

1. CIMA Managing Finance in a Digital World (E1) Study Text by Kaplan [[purchase](#)]
2. E1 Managing Finance in a Digital World Course Book by BPP learning media [[purchase](#)]

Other resources

There are various popular books on management, research papers, and documents being used as resources in this syllabus. We'll mention the references within the lessons when we tackle those content. Here are some of those books used in the lessons.

1. Cover photo credits to [Tima Miroshnichenko](#)
2. THE UK CORPORATE GOVERNANCE CODE by FRC [[Article](#)] [[PDF](#)]
3. The Fourth Industrial Revolution, by Klaus Schwab [[Article](#)] [[PDF](#)]
4. SAS – five essential components of big data
5. Mintzberg's structures in 5
6. Michael Porter's competitive advantage

Lessons and the syllabus

Lessons in this document are aligned in the same order as in the syllabus. Let's look at how each CIMA syllabus area aligns with our lessons

The syllabus is divided into 5 key areas. Each of the areas has multiple outcomes. Note that each syllabus area is typically explained within 2 lessons, except for the last one. The last syllabus area takes 4 lessons.

The following table explains how the lessons align with the syllabus

Syllabus area	Syllabus Outcome	Lesson
A. Role of the finance function	1. Explain the roles of the finance function in organizations	L1. Role of the finance function
	2. Describe the activities that finance professionals perform to fulfill the roles	L2. Activities of finance professionals
B. Technology in a digital world	1. Outline and explain the technologies that affect business and finance.	L3. Technology affecting business and finance

	2. Examine how the finance function uses digital technologies to fulfill its roles	L4. How the finance function uses digital technology
C. Data and information in a digital world	1. Describe the ways in which data is used by the finance function.	L5. Data and the finance function
	2. Explain the competencies required to use data to create and preserve value for organizations.	L6. Usage of data in Creation and Preservation of value
D. Shape and structure of the finance function	1. Describe the structure and shape of the finance function.	L7. Shape and structure of the finance function
	2. Explain what each level of the finance function does.	L8. Activities in different levels of the finance function
E. Finance interacting with the organization	1. Describe how the finance function interacts with operations.	L9. Operations and finance
	2. Describe how the finance function interacts with sales and marketing.	L10. Marketing and sales and finance
	3. Describe how the finance function interacts with human resources.	L11. HR and finance
	4. Describe how the finance function interacts with IT.	L12. IT and finance

Exam weightings

The exam equally weights the key areas of the syllabus. Each key area will represent 20% of the exam questions. This means, your E1 paper will contain 12 questions per key area of the syllabus.

Despite being explained in 4 separate lessons (instead of 2), the last key area of the syllabus will still only represent 20% of the paper (12 questions).

Note that each lesson in this document will represent 10% (6 questions) of the paper on average. However, the last 4 lessons will only represent 5% (3 questions) of the syllabus per lesson. There is plenty of content in the last 4 lessons, but the exam weight is still low.

Syllabus area	Weight %	Lesson	Weight %	Avg. Questions
A. Role of the finance function	20%	L1. Role of the finance function	10%	6
		L2. Activities of finance professionals	10%	6
B. Technology in a digital world	20%	L3. Technology affecting business and finance	10%	6
		L4. How the finance function uses digital technology	10%	6
C. Data and information in a digital world	20%	L5. Data and the finance function	10%	6
		L6. Usage of data in Creation and Preservation of value	10%	6
D. Shape and structure of the finance function	20%	L7. Shape and structure of the finance function	10%	6
		L8. Activities in different levels of the finance function	10%	6
E. Finance interacting with the organization	20%	L9. Operations and finance	5%	3
		L10. Marketing and sales and finance	5%	3
		L11. HR and finance	5%	3
		L12. IT and finance	5%	3

L1. Role of the finance function

Introduction

There are 3 major topics we are going to discuss

1. Organizations and their operating environments
2. How finance function creates and preserves value
3. Ethical considerations of the finance function

This lesson is somewhat lengthy as it lays out some groundwork for the entire syllabus. In addition, this lesson briefly introduces some concepts that we might tackle in later lessons.

It is worth noticing that CIMA subject pillars (E, P, F) are focused on different roles of the finance function

- P – Focuses on **What** the finance function does
- F – Focuses on **What** the finance function does and its **Implications**
- E – Focuses on **How** the finance function is organized

The new norm

Change is the new norm in many organizations due to seismic shifts in the level of **competition, customers' expectations** and the **global political outlook** combined with the **fast pace of technological change**.

This evolution is rapid and often unpredictable. With the new norm

- Organizations have to plan for a different way of doing business.
- The role of the finance function had changed.

Organizations and their operating environments

An organization is a social arrangement with a particular goal or purpose with a boundary separating it from its environment.

There are several **contexts** in which organizations operate

1. Business sector that the organization operates
2. Business type
3. Mission, vision, and objectives
4. Business environment
5. Stakeholders

Business sectors

There are 2 major sectors in that businesses operate

1. Private sector – Businesses owned by private individuals or organizations
2. Public sector – Businesses owned by the state

Business in the above sectors can further break down into types

1. Private sector
 - a. Profit-oriented (*Most organizations are profit-oriented*)
 - b. Not-for-profit oriented
2. Public sector
 - a. Public services (*Eg: Schools, Hospitals, Police*)
 - b. State industries

Business types

Different types of businesses interact with finance functions in different ways. Let's talk about these types of businesses and how each of them can affect their finance function. Different business types have different kinds of primary goals.

Profit-oriented organizations

The purpose of these organizations is to make a profit for their owners. There are a few types of for-profit organizations.

1. Sole proprietorships
 - a. These are businesses owned and controlled by an individual.
 - b. Doesn't have legal personhood (The law doesn't consider these businesses as legal entities, the owner should personally act instead in legal activities)
 - c. The owner has unlimited liability for the debt of their business.
2. Partnerships
 - a. These are businesses owned and controlled by a group of individuals (Partners).
 - b. Proportionate the ownership of the business to the partners using various methods (written agreements, Verbal agreements)
 - c. Doesn't have legal personhood.
 - d. The partners have unlimited liability for the debt of their business.
3. Companies
 - a. These are businesses owned by an individual or a group of individuals known as shareholders
 - b. A portion of a company owned by a shareholder is called a share. Only companies issue shares to their shareholders
 - c. Do have legal personhood.
 - d. Shareholders have limited liability for the debt of their business.
 - e. There are 2 major types of companies
 - i. Private companies – Issues shares to shareholders privately.
 - ii. Public companies – Issues shares to shareholders on public exchanges. Shares can be traded in stock markets.

Not-for-profit-oriented organizations

These are organizations prioritizing goals other than making a profit. *Eg : social rights, well-being, promoting ideas, and providing a benefit to society.*

Non-profit organizations might still require a profit to further expand their organizations and to support their primary goals. However, generating an income for their owners is not their primary goal.

Examples of non-profit organizations - Charities, Societies, Associations, and Government departments (Education, Health)

Objectives of Profit-oriented and Not-for-profit-oriented organizations

Please consider reading the differences between the objectives of Profit-oriented organizations and Not-for-profit-oriented organizations in the [objectives hierarchy](#) section later in this lesson.

Co-operatives (Mutual organizations)

Co-operatives can be considered a special form of a **not-for-profit organization**.

In theory, co-operates are owned by their customers (members).

Co-operatives don't make profits for their shareholders. Instead, they act to provide a benefit to their members. Any surplus is also spent on the well-being of members.

Multinational corporations (transnational corporations)

Any corporation that is registered and operates in more than one country at the same time is referred to as a multinational corporation (MNC).

In most cases, the corporation has its headquarters in one country and has wholly or partially owned subsidiaries in others.

Public services

Governments establish these businesses to provide some benefits to their citizens. These organizations are not focused on profit but on social well-being. Depending on the service, they have a wide range of goals and purposes. The income of these organizations depends on the funds they receive. Therefore, they don't have much control over their incomes.

Non-Governmental Organizations (NGOs)

An NGO is a private non-profit organization that operates independently of the government.

Their primary goal is not profit-making. They are not owned by any government.

There are a few major types of NGOs

1. Campaigning NGOs - These are the NGOs that attempt to influence social or state policies and opinions using various tactics. (Eg - Human rights organizations, Vegan organizations)
2. Operating NGOs - These attempt to provide a product, service or benefit to society through projects and work. (Eg - Charities)
3. QUANGOs - NGOs known as Quasi Autonomous NGOs are a type of private organization that shares an objective similar to the public sector organizations.

Effect of business types on the finance function

Finance functions in different types of organizations are affected by different key factors such as

- Owners - Different types of owners might want different things from a business.
- Income sources - Funding of the organization might make some major changes. State services are funded by the state, corporates are funded by shareholders, and proprietorships are funded by their sole owners.

- Overall goal - Some organizations want to make profits whereas some want to provide social benefits.
- Performance measuring - A corporate might measure its success by its profit whereas an NGO might measure its success based on how many people it influenced.
- Technology usage - A multinational corporation might be inclined more toward technology than a partnership

Mission, vision, and objectives

The different kinds of organizations have different kinds of goals. We can break down these goals into 3 key areas known as vision, mission and objectives. All vision, mission and objectives should be aligned with each other to properly represent the goals of a business.

Vision

A vision is a vivid view of the **desired** future state of an organization at some point in the **future** based on the organization's **goals** and **aspirations**

A vision is a high-level target and focused on an exceptionally long time period. A vision is important as it is concerned with the future strategy and the ultimate ideal goal of the organization.

Examples

Tesla : create the most compelling car company of the 21st century by driving the world's transition to electric vehicles

Mission

Mission describes what line of business a company is in, why it exists, and what purpose it serves in line with its stakeholder's expectations.

A mission statement is about the scope of the organization, its purpose of it, and how it wants to achieve its purpose. A mission statement is usually a concise brief explanation that takes a few lines of words or a short paragraph at most.

Key areas

A mission statement usually covers some key areas

- Purpose of the organization
- Scope of the organization (Operating areas/market)
- A glimpse of its culture
- How it plans to achieve its purposes (objectives)

Examples

Tesla : to **accelerate the advent** of **sustainable transport** by bringing **compelling mass-market electric cars** to market as **soon as possible**.

- Purpose - to accelerate the advent of sustainable transport
- Scope - mass-market electric cars
- Culture - compelling mass-market electric cars (Affordable/ Economical)
- How - as soon as possible

Nike - To **bring inspiration and innovation** to every athlete* **in the world**.

- Purpose - bring inspiration and innovation to every athlete
- Scope - the world

Microsoft - to **empower every person and every organization** on **the planet** to **achieve more**.

- Purpose - empower every person and every organization to achieve more
- Scope - the planet

Apple - to **bring the best personal computing products and support** to **students, educators, designers, scientists, engineers, businesspersons, and consumers** in **over 140 countries around the world**.

- Purpose - bring the best personal computing products and support
- Scope - students, educators, designers, scientists, engineers, businesspersons, and consumers in over 140 countries around the world
- How - **best** personal computing products and support

Objectives

Objectives are the specific and measurable targets companies set to control and measure their organization's functionality and performance.

Vision and mission indicate the general purpose of an organization whereas the objectives are specifically set to achieve those purposes. Objectives provide achievable targets to walk toward the organization's ultimate goal. Objectives arrange the stepping stones to accomplishing its mission and vision.

SMART Objectives

Objectives should be SMART.

- S - Specific
- M - Measurable
- A - Achievable
- R - Relevant
- T - Timely

Functions of objectives

- Planning - Establish the roadmap on how the organization is going to achieve its purposes
- Responsibility - Communicate the responsibilities to the staff
- Integration - Should make the functions of a business consistent by being consistent with other organizational objectives.
- Motivation - motivate the staff by specifying their specific goals
- Evaluation - Enables performance assessment by defining measurable targets.

Objectives hierarchy

In organizations, there is a **primary objective** and **secondary objectives** which collectively supports the achievement of the overall organizational objective.

It is worth considering the difference between the objectives of profit-oriented and not-for-profit-oriented organizations.

	Profit-oriented	Not-for-profit-oriented
Primary objectives	Maximise owner wealth	Maximise benefit to beneficiaries.
Secondary objectives	Detailed milestones defined to demonstrate the path of maximizing the owner's wealth	Economy* (Control costs), Efficiency* (Achieve objectives at the lowest cost), and Effectiveness* (A measure of achievement by reference to objectives)

*Economy, Efficiency, and Effectiveness are further explained [\[here\]](#) later in this chapter.

In addition, objectives can be differentiated according to the organizational level as well

- Strategic objectives – Sets the overall long-term objective
- Tactical (managerial) objectives – Set to plan and control individual functions of the organization
- Operational objectives – Act as everyday performance targets

Financial and non-financial objectives

Objectives can be financial as well as non-financial.

Examples

- Financial – Sales, Cost of sales, Market share, Assets, Unit cost
- Non-financial – Customer ratings, Product popularity, Product development

Critical Success Factors (CSFs)

Objectives broken down into elements that are necessary to achieve the objective are called CSFs.

By achieving these factors, organizations can reach their objectives.

Each department (or function i.e- sales, HR, IT) in the organization might have its own CSFs. The individual functions usually identify their CSFs by themselves. The finance function can partner up with each department to generate relevant KPIs for their unique CSFs.

Examples of CSFs and KPIs are below...

Key Performance Indicators (KPIs)

KPIs are quantifiable measures used to evaluate the success of organizational objectives, targets, and performance.

It is required to

- Identify the critical areas
- Establish suitable matrices (KPIs)
- Setting targets to outline the desired level of performance

Many KPIs are financial factors but some are non-financial. KPIs can be used as performance measures and control mechanisms. Managers can set KPI targets and if they are not met, reactions should be taken.

Each department (function) can have its own KPIs based on its own CSFs. The finance function assists the process of creating KPIs for CSFs of these departments. The finance function will work with all departments (functions) of the organization to assemble information on KPIs. It is necessary for finance professionals to partner up with professionals in these departments as they possess specialist knowledge in their specialist fields. It is unlikely for a finance team to work on another department's KPIs alone themselves.

Examples : A car service center

CSF	A related KPI
Ensure customer satisfaction	Ratings given on social media pages
Provide fast service	Average service time
Increase service efficiency	Average cost per service session

CSF vs KPIs

Like a key performance indicator (KPI), a CSF helps pave the way to project success. The difference is that **CSFs often focus on more high-level concepts, not metrics or data.**

To put it simply, a **CSF focuses on the underlying cause of success**, while a **KPI measures the impact of the actions you take.**

For example, if the CSF is to increase lead quality, the KPI would be the average value of new deals.

[CSF vs KPI Source](#)

Note : We will talk about KPIs unique to different organizational departments (functions) in the last 4 lessons. These include [Operational KPIs](#), [Marketing KPIs](#), [HR KPIs](#), and [IT KPIs](#).

Business Environment

Business environment is the sum of all physical and social things that surround an organization.

The business environment can be divided into 2 segments

1. Micro environment (task environment)
2. Macro environment (general environment)

Micro environment (task environment)

Micro environment is the portion of the environment that can **directly impact** the organization. The micro environment consists of things such as suppliers, customers, employees, shareholders and competitors.

Macro environment (general environment)

Macro environment is the portion of the environment that **indirectly impact** the organization. The macro environment is often described using the **PESTEL** model.

PESTEL Factor	Description
Political	The government and state policies
Economic	Economical factors such as stability, inflation, interest rates
Social	Social and Cultural aspects such as trends, seasons
Technological	Technology and its impact on the industry
Environmental	How the natural environment affect the business and the business affect nature.
Legal	How laws and regulations affect the business

Note - We will talk about the PESTEL analysis in later lessons [[here](#)]

The digital world

Digital world is the environment constructed by the increasing levels of digital technology usage in our everyday life.

In the digital world we live in, data and information is collected, stored and processed in many different ways.

Technological connectedness

Technological connectedness is a concept that describes the fact that **In this digital world, we have all become more connected.**

The world is flatter and more volatile. In a world of creating, storing, retrieving and synchronizing data, rules of engagement have changed thanks to a confluence of technological innovations and advances.

The technological connectedness was introduced in the CGMA whitepaper "[Re-inventing finance for a digital world](#)". Click [here](#) to view a digital copy of the article. Refer to page 3 for technological connectedness under the pace of change topic.

Effect	Description
Increasing levels of competition	Informed consumers expect the same level of convenience from all the organizations they interact with, right across their ecosystems.
Communication is becoming easier and faster	Crucially, in a connected ecosystem, others can instantly see your greatest ideas and quickly copy them for their own advantage.
Changing those who were traditionally seen as competition	It's changing how new competitors enter the market and how we interface with customers and stakeholders in the business ecosystem. Yesterday's competitor might become tomorrow's collaborator.

Stakeholders

A stakeholder is someone (Person/Group/Organization) who has an interest (stake) in the organization.

Typical stakeholders

- Shareholders
- Managers
- Customers
- Employees
- Suppliers
- Society
- Government

Stake

Stakeholders typically have a stake related to the organization. The stake of a stakeholder can be understood by understanding what they would lose if things go wrong with the organization. For example, if things go wrong shareholders will lose their "Financial investments". The managers will lose "Status, Career, Employment income, and safety". The customers will lose the ability to fulfill their "Product needs and wants"

Shareholders vs stakeholders

The shareholders and stakeholders aren't the same. Shareholders are a type of stakeholders. There are many other stakeholders as well. Shareholders are very important among all the other stakeholders.

Types of stakeholders

Stakeholders can be classified into **3 categories** as follows.

1. Internal stakeholders
2. Connected stakeholders
3. External stakeholders

Internal stakeholders

Internal stakeholders are stakeholders found within the organization. They operate within the boundary of the organization. Unlike the other types of stakeholders, internal stakeholders have a very close relationship with the organization and have a significant interest in how the organization functions.

Stakeholder	Stake (What is at stake?)	Expectation
Employee	Career, Employment income and safety	• A good salary, wages. • Employee insurance • Proper work environment • Career safety and career succession paths • Pension • Job security
Manager	Status, Career, Employment income and safety	

Connected stakeholders

Connected stakeholders are stakeholders who either invest in or have deals with the organization.

Stakeholder	Stake	Expectation
Shareholders	Financial investments	Dividends, Capital growth and the continuation of business
Customers	Product needs and wants	Value for money, Products and services
Suppliers	Things they supply and their value	Promptly payments, Further business, Revenue
Lenders	Money lend	Return on their investment

External stakeholders

External stakeholders are stakeholders with indirect links to the organization.

Despite having no direct relationship, they can still be affected by the actions of the organization.

Stakeholder	Stake	Expectation
Community	Personal safety, Environmental safety	Having no negative impact on their life.
Environmental pressure groups	Fulfillment of their organizational goals	Having no negative impact on the environment.
Government regulatory agencies	Public infrastructure granted to use, The welfare of employees, Reputation of legal system	Proper care for employees, Provision of tax and compliance with legislation

Stakeholder conflicts

A stakeholder conflict is a situation in which **different stakeholder groups** have incompatible or contradictory goals.

Stakeholders have different interests. As in the above table, different stakeholder groups have different expectations of a business. In some cases, fulfilling the expectations of a stakeholder might reduce the ability to fulfill the expectations of another stakeholder.

Here are some typical stakeholder conflicts that may arise

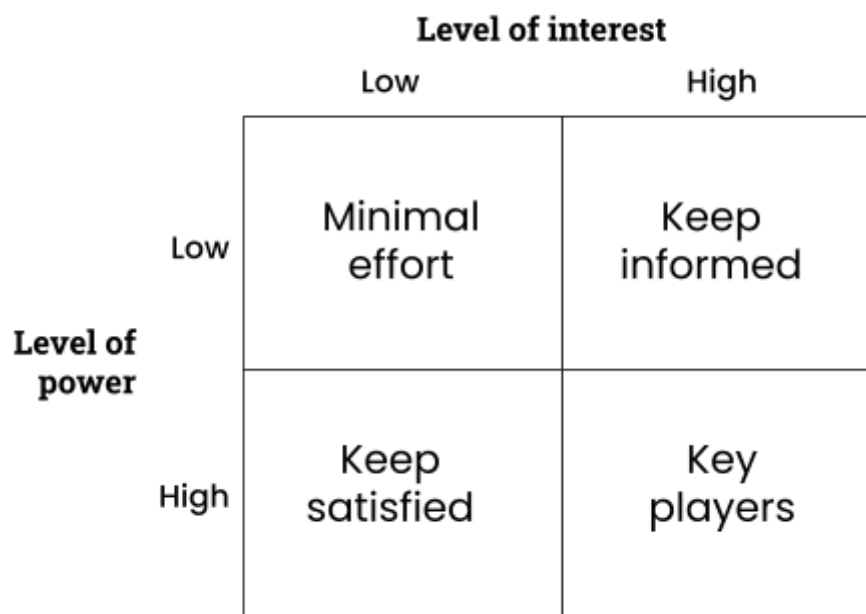
Stakeholders	Conflict
Managers Vs Shareholders	Growth by merger/takeover/issuing shares Vs Independence of ownership
Employees Vs Managers	Wages, Jobs Vs Bonuses

Customers Vs Shareholders	Product/Service quality Vs Profit, Dividends
Public Vs Shareholders	Effect on environment Vs Profit, Dividends

Note : A case like Managers vs Managers, or Employee vs Employee might not be considered as a stakeholder conflict as they fall in the same stakeholder group.

Stakeholder management

As we stated above, stakeholder interests might conflict. It is the organization's responsibility to properly manage its stakeholders and to take care of these conflicts. "Mendelow's power-interest matrix" can be useful in such cases.



Typical examples for matrix areas

- Minimal effort – Casual labor
- Keep informed – Core employees, Typical suppliers (replaceable)
- Keep satisfied – Government, Customers
- Key players – Executive managers/employees, Major suppliers

The matrix can assist an organization in stakeholder management. The expectations of key players should be considered during the formulation of new strategies

Criticisms of the power matrix

Mendelow's power-interest matrix has been around for a very long time. Despite being old, it is still being criticized for some of its flaws

- Individual customers can sometimes be categorized as having low power and consequently merely keeping them informed. Which is a practical joke.
- It fails to provide adequate instruction on how to deal with key players

How the finance function creates and preserves value

Finance function Creates, Preserves, and Narrates value. In this section, we are concerned about how finance Creates and Preserves value in organizations. The narration will be explained in [Lesson 2](#).

Value

Value is the measurement of the benefit generated by individuals or organizations.

The concept of value is subjective to the type of business. Different organizations with different goals might consider different aspects as value. Therefore, different organizations will measure value in different ways. For example

Organization	Measurement of Value
Profit-oriented organization	• Profit generated • Increases in shareholder wealth
Non-profit organization	• Targets achieved • Benefits delivered to the society

Economy, Efficiency, Effectiveness

The value added to an organization can be maximized by applying the principles of economy, efficiency, and effectiveness.

Principle	Description
Economy	Getting the right inputs at the lowest cost. In other words, the principle of performing activities for the minimum cost . <i>Eg - Making a unit of a product for \$20 is more economical than making a unit of the same product for \$50</i>
Efficiency	Getting as many outputs as possible from the input. In other words, the principle of maximizing output for a given input. <i>Eg - Producing a unit using 5kg of material is more efficient than producing a similar unit using 10kg of material.</i>
Effectiveness	Effectiveness is the relationship between an organization's outputs and its objectives . It ensures that the outputs of a service or program succeed in achieving objectives. <i>Eg - one of the indicators often used to measure schools' performance is exam results, and this provides a measure of effectiveness. Is the tuition which pupils receive building their knowledge and, in turn, helping them to pass their exams?</i>

All the above principles are closely related. Economy and efficiency together can make processes more effective.

Economy + Efficiency = Effectiveness

The role of accountants in a digital world

According to the CGMA whitepaper "[Re-inventing finance for a digital world](#)", many roles performed by accountants will be automated within the next couple of decades. However, this process will enable accountants to focus on more value-adding activities. This is something we would discuss throughout the syllabus, especially in L4 [\[here\]](#), L7 [\[here\]](#), and L8 [\[here\]](#).

The functions in organizations

There are **5 major functions** common to most typical organizations.

1. Sales and marketing
2. Operations
3. Human resources (HR)
4. IT
- 5. Finance**

Each of these functions might have separate departments, Staff, and managers depending on the organizational structure (which will be discussed later in [Lesson 2](#) in detail).

These typical organizations generally take **3 basic types of resources** namely

1. Material
2. Labor and
- 3. Money**

to produce products and services.

We are primarily focused on the **finance function** among the major organizational functions. The finance function looks after the **money** (Financial resources) that an organization has.

What is the finance function

The finance function refers to **practices** and **activities** directed to **manage business finances**. The functions are oriented toward **acquiring** and **managing financial resources** to generate profit.

Key roles of the finance function

Finance function performs 3 roles in an organization

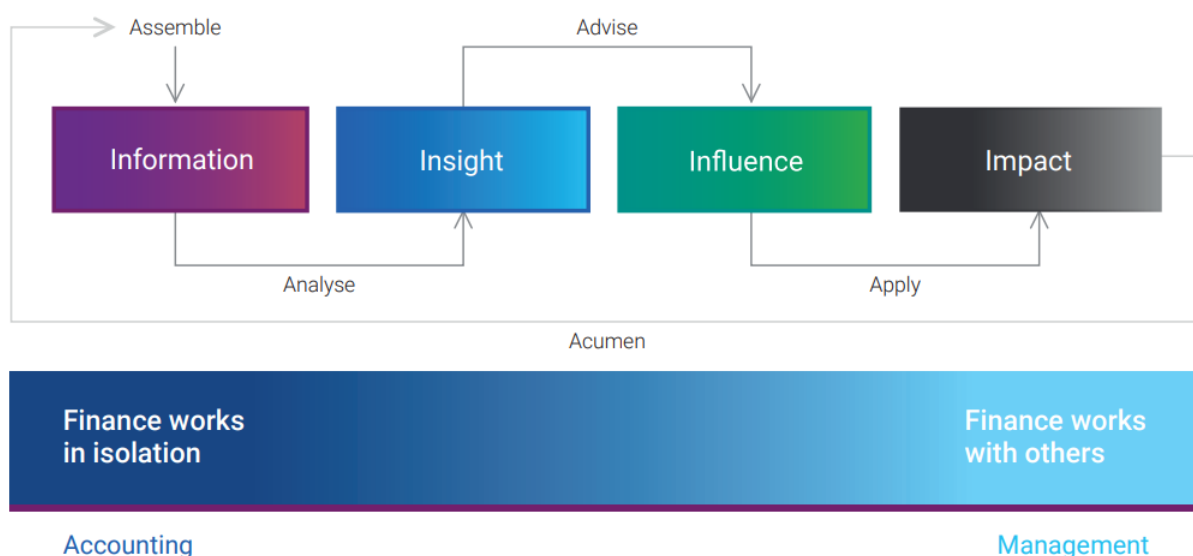
1. **Enables** an organization to create and preserve value
2. **Shapes how** an organization creates and preserves value
3. **Narrates how** an organization creates and preserves value

In the CIMA Professional Qualification, the 'Enables' element is encompassed in the Enterprise pillar; the 'Shapes How' piece is covered in the Performance pillar; and 'Narrates How' is part of the Financial pillar

Basic activities of finance - Information to impact framework

The whitepaper introduced the concept of "Information to Impact framework". The framework identified 4 interconnected activities.

Note : It is worth noticing these activities now but these will be discussed later in detail in [Lesson 2 \(L2\)](#). In case this section seems to be complex, please leave this section for now and come back later after studying lesson 2.



Activity	Description
1. Assembling information	The process of collecting, cleansing and connecting data into valuable information. <i>Eg - Financial accounts, management accounts</i>
2. Analyzing for insight	Analyzing accounting information to identify patterns, trends and insights.

3. Advising to influence	Communicates these insights and contributes an objective, responsible perspective to influence decision-making.
4. Applying for impact	Guide actions and help ensure organizations achieve the required impact <i>finance function enables and uses control systems such as strategic planning, budgeting, performance measures and performance reviews.</i>

Additionally, the whitepaper explains acumen

5. Acumen	The finance function ensures it assembles valuable information to inform the consideration of subsequent proposals. <i>This information can range from reports to analyses of the outcomes achieved or experiences gained from relevant initiatives.</i>
-----------	---

The activities will be individually discussed in [Lesson 2 \(L2\)](#)

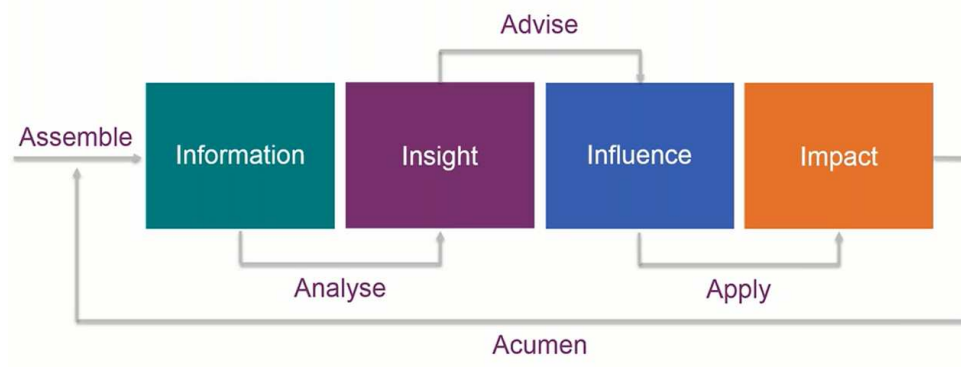
The value matrix of the finance function

*Note : In case this section seems to be complex, please leave this section for now and come back later after studying lesson 2 because the finance value matrix relies on the “Information to Impact” framework discussed in the 2nd lesson. This section is **less likely to be tested** in the exam.*

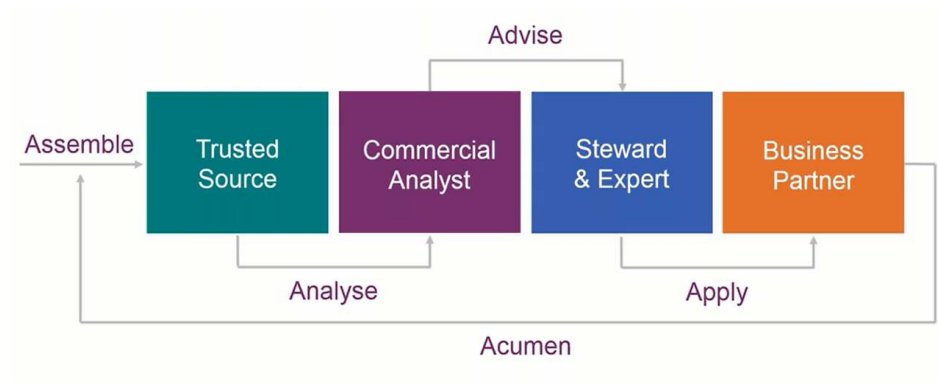
Note : In case the framework or the matrix isn’t clear after reading through this section, please watch the [1st webinar of this webinar series](#) published by CGMA to see how the authors (Dr. Martin Farrar and associates) present this whitepaper and concepts in detail.

The whitepaper introduces the finance function value matrix. In each activity the finance function performs, it generates value in a different way.

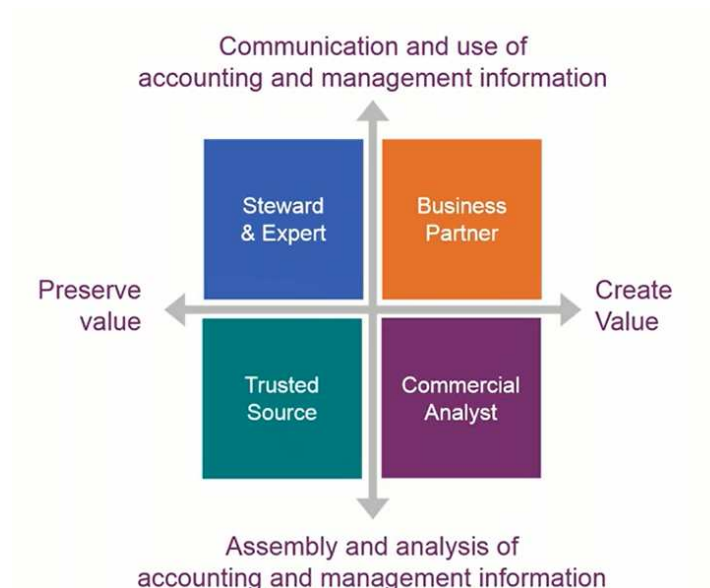
Here's a pictorial representation of the information to impact framework



The below picture represents how finance function act in each activity level of the "Information to Impact framework". Finance function act as different things in different activity levels.



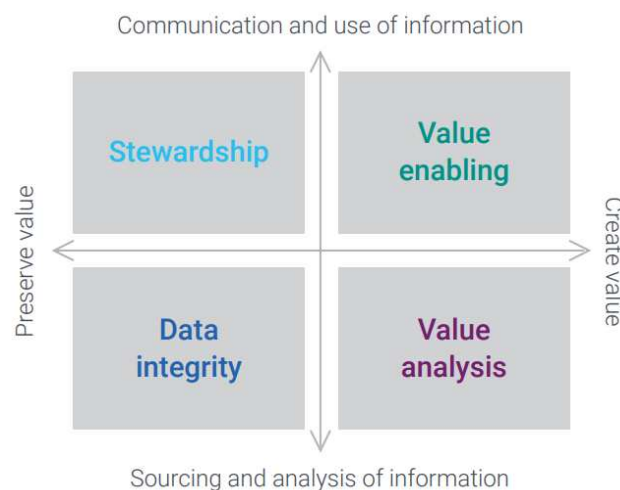
The above activities can be arranged into a matrix as in the picture below



The following table explains what each axis says.

	Representation	Attributes
y-axis	represents what finance functions do	1. ' sourcing and analysis of information' 2. ' communication and use of information'
x-axis	represents why finance functions do them.	1. To 'preserve value' 2. To 'create value'

The above matrix can be simplified as follows



Area	How finance acts
Stewardship	Finance acts as the subject matter steward&expert , contributes to strategic decision-making, including defining objectives with regard to developing the business model
Value enabling	finance acts as a business partner , uses insights to address performance issues, and enables solutions to create value .
Data integrity	finance as a trusted source of the management information, provides data integrity
Value analysis	finance as a commercial analyst , provides insights into the drivers of organizational value

The value finance brings to an organization

According to the CGMA whitepaper mentioned [above](#), the value of the finance function can be summarised into points as follows

1. **Reporting accuracy:** a balanced approach between effort, accuracy, and relevance.
2. **Partnering and decision support:** become a better partner with the business to make better business decisions.
3. **Controllershship and risk:** known for having robust controls embedded across your core financial processes, providing surety over your numbers.
4. **Enterprise-wide cost management:** sponsoring and leading initiatives to provide cost transparency and enable the organization to identify and act on opportunities to reduce costs.
5. **Analysis and insight:** increase the level and quality of insight delivered to the business.

Key activities of finance function

There are distinct activities in a finance function that enable, shape, and narrate value.

Key role	Key Activities
Enable (create) value	Planning
	Forecasting
	Resource Allocation
Shape value	Performance management
	Control
Narrate value	Financial reporting

Planning

Planning turns organizational targets, objectives, and critical success factors (CSFs) into a detailed roadmap that makes it possible to achieve them.

The finance function converts the plan into a financial representation, often known as a budget. A budget can be monitored and can be used to measure performance by using KPIs and other management accounting practices.

Budgets are driven by controllable factors such as costs as well as some uncontrollable factors such as demand.

Forecasting

Forecasting predicts or estimates different factors that can be used in various planning activities. The planning and forecasting roles often work together and are mutually connected.

Forecasted data is often used in budgets.

Resource allocation

Resource refers to everything available for an organization to properly function and reaches its goals.

Examples - Physical material, Financial capital, Human resources, Property, etc...

Resource allocation is the effective assigning of scarce resources to different activities for achieving organizational strategic goals.

Eg -

- *Should we use this batch of leather to produce bags or shoes?*
- *Should we assign this supervisor to factory A or factory B?*
- *How many sales officers should be assigned to the upcoming bag marketing campaign?*
- *How many machines should we employ in department C*

Effective resource allocation contributes to the success of organizational goals. The finance function enables the management to take the best strategic resource allocation decisions through data analysis.

Performance management

Performance management is the process of monitoring organizational performance over time. Performance management allows the management to evaluate the organization. It ensures that a set of activities and outputs meets an organization's goals in an effective and efficient manner.

Control

Control is the process of taking corrective action where performance fails to meet predefined targets. Performance management and control are closely linked together. Value can be created by minimizing losses caused by underperformance and maximizing profits in favorable situations.

The finance function supports both performance management and control by the effective application of KPIs and other management accounting practices (such as variance analysis)

Financial reporting

Financial reporting is the activity that narrates the value created and preserved by the organization to external and internal stakeholders.

Financial reports that are provided only to the internal stakeholders are management accounts.

Financial reports that are provided to external stakeholders (as well as internal stakeholders) are statutory financial statements. It is necessary to create these reports to comply with the law and to fulfill audit and other third-party purposes.

Ethics in finance function

In this section, we are going to talk about,

1. Corporate governance
2. Ethics
3. Corporate Social Responsibility (CSR)
4. Corporate Digital Responsibility (CDR)

Corporate governance

Corporate governance is the set of processes and policies by which a company is directed, administered and controlled.

In other words, It is the system of practices that drives and controls the organization.

Corporate governance assists in preserving the value of an organization by providing effective controls in order to manage risks. By doing so, Corporate governance reduces the problems generated by having poor controls and procedures.

Separation of ownership and control

Separation of ownership and control is the explanation for a situation in which the owners are not the ones that operate the organization.

Companies are owned by the shareholders but managed by the directors. This might not be the case for small-scale businesses, but this is almost certainly the case with large companies.

In companies, owners and managers are 2 different parties.

1. Owners are the shareholders known as the "Principal"
2. Managers are the directors known as the "Agents"

Role	Role player	Known as
1. Owners	Shareholders	Principal
2. Managers	Directors	Agents

The shareholders appoint directors to manage their business for them. In this sort of environment, it is possible for the “agency problem” to arise. Therefore, corporate governance is important to companies, as it reduces the risk of this “agency problem”.

Agency problem

Agency problem is a **conflict of interest** between the **principal** (Owners) and the **agent** (Managers).

The agent and the principal might have their own self-interests which are contradictory to each other. Fulfilling one in the extreme will leave the other party unsatisfied. For example, the managers might want to increase their salaries, benefits and payments whereas the owners might want to make a profit out of their business.

Corporate governance ensures that the directors are held accountable to the shareholders. Corporate governance ensures that those who manage the business do it in a way that serves the interest of the owners rather than pursuing their own interests.

Risk of poor corporate governance

The worst-case scenario is the closedown of the business. The organization might cease to exist because of poor corporate governance. In addition to that, there are many more risks involved with improper corporate governance.

The failure of corporate governance may be visible in the organization's activities. Some illustrations of poor corporate governance are listed below.

1. Lack of supervision

Employees without supervision can cause more harm than benefit. In addition to directors working toward their own interests, employees might also follow their own interests rather than organizational goals.

There might also be problems caused by their incompetencies, irresponsibility and fraudulent activities.

2. Lack of board involvement

Boards that do not meet frequently and properly enough and boards that take decisions based on inadequate information could be a sign of improper corporate governance. It is also problematic if they can't take organizational objectives and activities into proper consideration.

3. Lack of adequate control functions

Lack of internal audit functions and ineffective audit functions can create more problems. If employees in major roles (especially audit committee members) lack competencies, things might get out of control.

4. Individual dominations

Problems may arise if the director board is dominated by a single member while other members are powerless. The single person might be able to pursue his own interest while discarding the organizational goals.

5. Lack of independent scrutiny

External auditors might be afraid to carry out appropriate actions for fear of losing the contract. Meanwhile, the internal auditors might fear to raise their voices in fear of losing their job.

6. Misleading accounting information

Misleading information could be the result of a variety of issues within an organization. It may be associated with or cover fraudulent activities. Misleading information can damage a company's reputation and might be very harmful in the long term.

7. Emphasizing short-term profitability

The dire need of having short-term profit will lead to dire consequences. The staff might end up adjusting financial values to get the result they wanted.

8. Lack of contact with shareholders

Board members might distance themselves from shareholders to cover their problematic actions.

Approaches to corporate governance

What sort of approach is suitable for a corporate governance code is a continuous debate. There are 2 main approaches to corporate governance.

1. Principles-based systems (AKA Framework approach)
2. Rules-based systems (AKA Compliance approach)

Principles-based approach is the approach driven by values and principles. A framework of this sort consists of best practices and guidelines. Despite having no legal penalties, companies are expected to follow these for the sake of ethics.

Example - UK Corporate governance code

Rule-based approach is the approach driven by the law. Not adhering to it will be addressed by the legal system of the country.

Example - USA Sarbanes-Oxley act 2002 (SOX)

US Sarbanes-Oxley Act (SOX)

SOX is the corporate governance code of the USA. The act is applicable only in the USA and the subsidiaries of USA-based companies.

The act was introduced in 2002 following some corporate governance scandals including WorldCom and Enron cases.

Legal requirement	Description
1. Auditor independence	External auditors have restrictions on additional services they can offer
2. US stock exchange regulations	Similar to the UK regulations
3. Internal control reports	A statement on internal control systems must be included in the financial reports
4. Audit committee	Companies should necessarily have an audit committee to be allowed to trade in stock markets.
5. Increased financial disclosure	Financial statements must include all the sources of financing in the financial statements.

The SOX Act does not mandate that private cooperatives (those that do not register their stock in exchanges) have an audit committee. However, it is strongly recommended by audit firms to have one.

The UK corporate governance code

The **Financial reporting council** (FRC) promotes the UK corporate governance code as the responsible body for promoting high standards of corporate governance in the UK.

The UK corporate governance code has the following features

- The board of directors
- Director's power and duties
- The relationship of the company with directors, such as loans to directors and the interests of directors in company contracts
- Accountability for stewardship and financial reporting via the financial statements
- Rules on meetings with resolutions

All companies listed in the London stock exchange should **necessarily** apply the principles of the UK governance code. The companies **must** produce a disclosure

statement with the confirmation of compliance with the code. The companies must explain any non-compliances as well.

Smaller companies* can take more flexible approaches.

FTSE is an index of the top companies

- FTSE100 is an index of the top 100 companies based on capitalization.
- FTSE350 is an index of the top 350 companies (including FTSE100s) based on capitalization.

Visit the London stock exchange website [here](#) for examples.

* According to the code, a smaller company is one that is below the FTSE 350 throughout the year immediately prior to the reporting year

Principles in UK corporate governance code

Board

Board is the **executive body** of a company which consists of **executives** (with a balance of skills, experience, independence and knowledge) that **meets regularly**

There are many roles on the board including,

- Chairman
- Deputy chairman
- Chief Executive Officer (CEO)
- Senior independent directors (SID)
- Members (Executive directors, NEDs)
- Chairs of board committees

The board is now responsible for workforce policies and practices that reinforce a healthy culture as the **2018 revision** of the code emphasizes the importance of a positive relationship between the company, its stakeholders and shareholders.

The responsibilities of the chair, chief executive, senior independent director, board, and committees should be clear, set out in writing, agreed upon by the board, and made publicly available.

The board has some recommendations on having Non-Executive Directors (NEDs) in it. This matter is explained later in the [NEDs](#) section below.

Annual General Meeting (AGM)

AGM is the meeting held by a company to allow the **board** to communicate with the **shareholders**.

Roles in UK corporate governance code

The chairman and the CEO are important roles on the board. Positions of these roles **should be separated** to ensure that no single individual has too much power within the company.

Chief Executive Officer (CEO)

The CEO is the highest ranking executive responsible for the **everyday running** of an organization. CEO is often responsible for making strategic decisions, ensuring profitability, improving share prices, managing overall operations, and expanding the business. CEOs are often elected by the board of directors.

Chairman

Chairman is the role responsible for the **leadership** and the **effectiveness** of the board. The chair

- Facilitates productive board relations.
- ensures that all **non-executive directors effectively contribute** to the board
- Ensures that the board receives reliable information.

The chairman should be independent on appointment and the same person cannot hold both CEO and chairman positions.

Executive Directors

Executive directors are directors involved in the **day-to-day management** of an organization.

Non-Executive Directors (NEDs)

Non-executive directors are directors who **don't participate in the day-to-day management** of an organization. They primarily only attend board meetings (and the meetings of board committees).

The key role of a NED is to reduce the conflict of interest between management and shareholders by providing balance to the board. NEDs are paid a fee (Such as a fixed daily rate) that reflects the time commitment and the responsibilities of the role. The rate is often decided by the executive directors.

Non-executive directors

- Assist policy-making
- provide strategic guidance
- offer specialist advice
- hold management to account (Keep an eye on executives for all the other stakeholders)

The role of NEDs is an **established best practice** in corporate governance. The role's **prominence has grown** significantly in recent years.

The NEDs should be as independent as possible. To ensure that, NEDs must not

- Have been an **employee** of the company in the last **5 years**
- Had a **material* interest** in the company in the last **3 years**.
- **Served as a NED** for the same company for more than **9 years**.
- Have company **share options, performance-wise pay** and company **pension**.
- Have **close relatives** who are executives of the company.
- Holds **cross directorships***

Any of these elements could compromise the NEDs' independence. A NED can be either independent or not independent based on these elements.

*Material – Materiality is a concept or convention within auditing and accounting relating to the importance/significance of an amount, transaction, or discrepancy. In a legal context, material Interest means direct or indirect ownership of more than 5% of the total assets or capital stock of any business entity

*Cross directorship – A cross directorship is said to exist when two (or more) directors sit on the boards of the other. In most cases, each director's 'second' board appointment is likely to be non-executive. For example, director Alan is an executive director on the board of company Adex and also holds a non-executive position on the board of company Badex. Director Barry is an executive director on the board of company Badex and also holds a non-executive position in company Adex. This can compromise the independence of the directors involved. For example, a director decides the salary of a colleague who, in turn, may play a part in deciding his own salary. And remember, no director should decide their own salary! Alternative Example [here](#)

Typical recommendations are

- At least half of the board should be independent NEDs. A smaller company should have at least 2 independent NEDs.
- One of the NEDs should be appointed the “Senior Independent Director”.

Senior Independent Director (SID)

Senior Independent Directors can act as alternative points of contact.

Shareholders can contact them to raise a matter outside the normal executive channels. Investors who may have made little headway in discussions with the Chair, chief executive, or finance director – or who may have concerns about the performance of these individuals can also contact the SID. Extra information [here](#).

Note : All the references, resources, and links for the UK corporate governance code and other materials are available at the end of the lesson in the [additional reading](#) section.

Committees in UK corporate governance code

Nomination committee

Appointments to the board should be subject to a formal, rigorous, and transparent procedure and an effective succession plan should be maintained for the board and senior management

The revised **2018 Code** states that the nomination committee is responsible for effective succession planning when developing a more diverse board and that the gender balance of senior management and their direct reports **should be reported**.

The nomination committee assesses a company's board of directors and looks at the qualifications and traits expected of new board candidates.

Recommendations

- Appointment to the board should be made via the nomination committee
- **50%** of the committee should be made up of **NEDs**.
- Committee chair should be either the chair of the board or an independent non-executive director
- The chair of the board shall not chair the committee when it is dealing with the matter of succession of the chair of the board (Otherwise OK)
- The committee is responsible for effective succession planning as per recommendations of the 2018 revision of the code
- Both appointments and succession plans should be based on merit and objective criteria.
- Committee should promote diversity of gender, social and ethnic backgrounds, and cognitive and personal strengths.

Additional reading – [Chartered Governance Institute](#)

Remuneration committee

The remuneration committee is the committee responsible for deciding on the payments and incentives offered to Executive Directors. This is including pension rights and compensation payments.

No director should be involved in deciding their own remunerations! The remuneration committee strengthens this principle of corporate governance.

Recommendations

- Remuneration committee should have **at least 3 members** (at least 3 for FTSE 350 companies and at least 2 for smaller listed companies)
- **All members** of the remuneration committee should be **NEDs**.
- The **company's chairman** can be a **member** of this committee
- The **company's chairman** can't be the **chair of this committee** (despite being a member)
- The chair of this committee must have been a member of the committee for at least **12 months**.
- Remuneration should be **sufficient** to attract, retain and motivate quality directors but shouldn't be more than necessary.
- A significant proportion of director remunerations should be performance-based.

According to the **2018 revision** of the code, there should be a "Remuneration Report" which also explains how remunerations help the organization to achieve its strategy and long-term success and its alignment to workforce remuneration.

Advantages

- It reduces the risk of agency problems by disabling the directors from deciding their own payment
- Allow the board to focus on objectives and strategy rather than self-interest

Disadvantages/Limitations

- NEDs might recommend high remunerations for EDs hoping that the EDs would recommend high remunerations for the NEDs.
- Remuneration committee requires time, money and resources that could be spent on other organizational goals.

Additional reading - [Chartered Governance Institute](#)

Audit Committee

The audit committee is the committee that acts as a liaison between the directors and the auditors.

The audit Committee is the committee responsible for monitoring and reviewing the company's **financial controls** and the **integrity of the financial statements**.

Recommendations

- Audit committee should have **at least 3 members** (at least 3 for FTSE 350 companies and at least 2 for smaller listed companies)
- **All members** of the audit committee should be **independent NEDs**.
- The board should review the **effectiveness of risk management and internal controls** at least **annually** and report to shareholders covering all material controls
- The chair of the board **should not** be a member

Activities of the committee

- The audit committee acts as a **medium for communication** between the **board of directors** and the **internal and external auditors**.
- Review the work and effectiveness of the [internal audit](#) function
- Monitor the external auditor's independence and objectivity
- Short-list external audit firms when a change is needed

Responsibilities of the committee

- Reviewing accounting policies and financial statements as a whole to ensure that they are appropriate and balanced

- Review systems of internal controls and risk management within the organization. (Note. That risk management may be dealt with by a separate committee – the risk committee)
- Agreement on the work agenda for the internal audit department, as well as reviewing the results of internal audit work.
- Liaising with external auditors, including dealing with problems in the audit as they arise as well as the appointment and removal of external auditors.

Additional reading - [Chartered Governance Institute](#)

Committee Summary

	Nomination	Remuneration	Audit
Members required (small companies)	Not given	2	2
Members required (Large companies)	Not given	3	3
How many members should be NEDs	50% of members	100% of members	100% of members
Is the independence of NEDs essential	Essential	Essential	Essential
Can chair of the board be a member of this committee	Yes	Yes (only if independent)	No
Can chair of the board be the chair of this committee	Yes and recommended*	No	No

* But only when not dealing with the matter of succession of the chair of the board.

Ethics

Ethics is the system of moral principles that concerns the concepts of right and wrong.

The application of ethical values into a business is generally known as “**Business ethics**”. Ethics are expected to be upheld even though they are not required by law. Business ethics might be explicit and even included in the mission statement or policy statements. In some cases, ethics are not explicit and integrated into the organization's culture.

The role that the finance function performs should be carried out ethically, with **integrity** and **professionalism** in mind.

Many factors may define the rightness or wrongness of an action. The list includes

- Principles – A rule of conduct based on beliefs of what is right and wrong
- Values – What the society considers to be right or wrong
- Place – Culture, location, society, and national
- Intentions – The motivation of those who are involved in the action
- Consequences – The result of the action.

Ethical behavior is usually judged by consequences rather than motives or intentions. What's right and wrong might be judged differently based on the country, location, and culture as well. Even two neighboring organizations situated in the same place might have different moral views.

Despite not being enforced by the law, **ethics are pressured** on businesses by various sources such as,

- Pressure groups
- Media
- Consumers
- NGOs
- Employees

Advantages of being ethical

Ethical behavior reduces risks, ensures long-term profitability, and gives access to cheaper funds, in turn, increasing the profitability of projects. On the other hand, unethical behavior can potentially damage the reputation of a company and put the company at legal risk in the case of being discovered.

Here are some major advantages of being ethical

- Resulting in potential higher sales volumes and prices due to customer trust.
- Ability to attract and retain the best employees and ability to get improvements in employee productivity.
- More opportunities for profitable projects as business collaborators can establish trust

CIMA's Code of Ethics

The **International Federation of Accountants (IFAC)** maintains an ethical code that is made concerning the accounting profession. The CIMA's code of ethics is based on the IFAC's standard ethics code which is globally accepted by many independent accounting bodies.

Here are the 5 fundamental ethical principles in the CIMA's code of ethics.

Principle	Explanation
Integrity	We should be straightforward, honest, and truthful in all professional and business relationships. We should not be associated with anything deceptive or misleading.
Objectivity	Accountants should not allow bias, conflict of interest or the influence of other people to override their professional judgment .
Professional competence and due care	The individuals should maintain their professional competence. In other words, they should be able to work carefully, thoroughly, and diligently in accordance with relevant technical and professional standards . Those working under

	your authority must also have the appropriate training and supervision.
Confidentiality	We should not disclose professional information acquired through professional relationships unless we have specific permission or a legal or professional duty to do so. Such information should not be used for personal gain.
Professional behavior	Comply with relevant laws and regulations . You must also avoid any action that could negatively affect the reputation of the profession.

Additionally, You can review the official code and the explanations [here](#) on the official CIMA website. View a PDF copy of the code [here](#).

Corporate code of ethics (Code of conduct)

A corporate code of ethics is a statement of business guidelines and internal policies that are meant to be followed by employees.

Companies do not have a legal obligation to create this. Instead, most large companies create a code of ethics of their own will

Corporate code of ethics can come in various formats

- Corporate ethic statement – Usually, a broad generalization
- Corporate ethics code – usually, contain more specific rules

Companies hire compliance officers (or ethics officers) to maintain the application of the code of ethics throughout the organization. Employees can discuss ethical dilemmas and any concerns about the ethical code with the compliance officer.

Ethical Conflicts

A **ethical conflict** is a situation in which a person has two ethical obligations, which cannot be met both at once.

An **Ethical dilemma** is a situation that pushes a decision maker to decide what is the 'right' to do and what is the 'wrong' thing to do.

A true dilemma is an unresolvable ethical conflict. It will probably make you choose the lesser wrong instead of the right.

According to the CIMAs code of ethics (Section 210), an ethical conflict arises when a member encounters one or both of the following:

1. Obstacles to following an appropriate course of action due to internal or external pressures
2. Conflicts in applying relevant professional and legal standards

Examples of ethical dilemmas in businesses are listed below.

Accounting issues

- Should a member report a potential fraud that might violate confidentiality?
- Should the business make its accounts in a way that increases the profit reported?
- Should directors be paid high remunerations despite the organization's performance being low?
- Should the company bribe other companies to facilitate contracts, especially where such activities are commonplace?
- Is it acceptable for the directors to purchase company shares to boost the share prices in stock markets?

Production issues

- should the company test its products on animals.
- should the company produce certain products at all, for example, bombs, guns, tobacco etc.

- should the company be concerned about the effects on the environment of its production process. Sales and marketing
- Is it ethical to target advertising at children, for example for fast food or for expensive toys at seasons?
- Should products be advertised by junk emails or spam emails?

Personal (HRM) issues

- Employees should not be favored or discriminated against based on gender, race, religion, age etc.
- The contract of employment must offer a fair balance of power between employee and employer

-The above definition and examples are from CIMA official study texts.

Corporate Social Responsibility

CSR is the idea that companies should be **accountable and sensitive** to **all their stakeholders** (including society and the public) rather than **just shareholders**.

As described [earlier](#) in this lesson, Someone with an interest (stake) in a company is considered a stakeholder. A shareholder is a type of stakeholder.

CSR goes beyond mere legal compliance as it is a voluntary commitment to be ethical in a competitive environment.

There are many kinds of social responsibilities that a corporate can practice. The responsibilities might be categorized in different ways by different individuals.

There is no clear general categorization.

CSR Category	Explanation	Example considerations
Environmental responsibilities	The way that company operations impact the environment shouldn't be ignored.	• Usage of non-renewable material. • Usage of non-degradable material.
Ethical responsibilities	The company should act in a fair and just way exceeding legal obligations.	• Paying employees fairly. • Experimentations on animals.
Health responsibilities	The health impact on customers should be considered	• Promotion and production of products such as alcohol and tobacco. • Safety of products and production process.
Philanthropic responsibilities	Companies can make contributions with the desire to promote the well-being of others.	• Donating to funds. • Donating to charities. • Supporting community

Types of CSR strategies

A company can strategize how they approach CSR as a unique organization. Here are some generic strategies that organizations take. A company might use any of the following strategies depending on the situation.

1. Reactive strategy

Reactive companies prefer responding to issues after they occur. Unless otherwise provoked or caught, they might utterly ignore the issues they made.
Eg – Driving over someone by mistake, then running away until the police find out.

2. Proactive strategy

Proactive companies prefer responding to issues before they occur. This approach involves pre-planning, controlling and being aware of the environment. They take responsibility for their actions without any provocation to do so, even in case it would cost them.

Eg - Learning to drive properly and driving slowly so no one gets hit and gets into accidents.

3. Accommodation strategy

Considering CSR in response to pressure from interest groups or the government. They might change their policies to satisfy critics.

4. Defense strategy

These companies make a point of following the law to ensure that others cannot take legal action against them.

Eg - A company may create more waste than necessary, but it will remove the waste in a legal method rather than dumping it illegally.

5. Obstructive strategy

These companies avoid CSR and focus on profit. In case it faces issues, they deny its responsibility and wrongdoing. Possibly use obstacles to deliberately slow down the investigations and pressure from society.

Eg- A company may create more waste than necessary, then dump it illegally to say they didn't do that but someone else might in case they were caught.

Additional read - [here](#)

Benefits of CSR

Good CSR practices can provide many strategical advantages to a business.

However, **traditionalists** argue that companies should solely focus on making money for the shareholders and they shouldn't worry about social responsibilities.

Modernists on the other hand argue that CSR enhances a company's reputation, which makes the company's long-term future shine.

Some of the potential strategical advantages of CSR are as follows

- Strengthenes the brand – The CSR might increase the reputation of the company and the brand.
- Social expectations – Society and the customers increasingly expect the companies to be responsible
- New opportunities – Organizations prefer partnerships with responsible companies for mutual benefit
- Better staff – Employees with better qualifications prefer working in more responsible companies. Some even refuse to work in irresponsible companies.
- Unique identity – CSR strategies can provide a unique identity to a company by acting as a method of differentiation.
- Reduction of costs – Costs could be reduced in different ways (Tax grants, Green energy).

Arguments against CSR

- Businesses may use CSR as just a PR (Public Relation) exercise.
- Increased costs as it cost to maintain these principles.
- Companies should just focus on maximizing profit

Corporate Digital Responsibility

The application of CSR values to data and digital devices is known as CDR.

CDR will be discussed later [here](#) in Lesson 4.

+ Potential exam testing points

Here are some potential points that might be tested in the exam. Keep in mind that these are for your reference only. There might be questions outside of these points as well. More about potential exam points is available in the introduction section [[here](#)]

This lesson is heavy in content compared to other lessons and there are many points that could be tested

1. What is the “[new norm](#)” (you should try to memorize or at least have an idea of that entire section)
2. Name the 2 major business sectors
3. Identify whether a given organization is in the public sector or private sector
4. Identify whether a given organization is a profit-oriented organization or a not-for-profit-oriented organization
5. Identify the “[business type](#)” of a given organization
6. Ability to differentiate companies from partnerships
7. The primary goals and the secondary goals of the profit-oriented and the not-for-profit-oriented organization. (Objectives hierarchy)
8. 3 effects of “technological connectedness”
9. 3 main types of stakeholders (Internal, Connected, External)
10. Define 3 main stakeholder types
11. Examples for each of those stakeholder types
12. Define stakeholder conflicts
13. Identify stakeholder conflicts in a given list of incidents
14. Mendelows power matrix
 - a. Understand the Mendelows power matrix
 - b. label the components on a given empty/partially empty image of the matrix
 - c. Name the 2 axes of the matrix
 - d. Place a given example stakeholder in the relevant position of the matrix based on its power and interest

- e. Criticism of the Mendelows power matrix
- 15. Definitions of economy, efficiency, and effectiveness
- 16. 5 main functions (departments) and 3 main resources of typical organizations.
- 17. Know and explain the 3 key roles of the finance function
- 18. Know and explain the 6 key activities of the finance professionals
- 19. Categorize the [key activities](#) of the finance professionals to the key roles (enable, shape, and narrate) they have in organizations
- 20. Definition of corporate governance
- 21. Definition of agency risk
- 22. Illustrations of poor corporate governance
- 23. 2 main approaches to corporate governance
- 24. Differences between principle-based systems and rule-based systems
- 25. Have an idea of the requirements of the SoX act
- 26. Name the organization that promotes the UK corporate governance code
- 27. Necessary corporate governance compliance requirements of large companies and small companies
- 28. Have an idea of the new things added by the 2018 revision (highlighted in the note by bolding the font)
- 29. What are the committees mentioned in the UK corporate governance code?
- 30. Activities and responsibilities of those committees?
- 31. Why the role of CEO and president should be separated
- 32. What is a NED and what do they do?
- 33. Know that the role of the NED is an established best practice with increasing prominence
- 34. How many NEDs should be on a director board depending on the size of the organization?
- 35. How many NEDs are necessary for each committee depending on the size of the organization
- 36. What compromise the independence of a NED?
- 37. Identify the characteristics that compromise the independence of a described example NED
- 38. Who should appoint as a SID?
- 39. Define ethics and business ethics
- 40. Benefits of a company that behaves in an ethical manner

41. Describe/Name/Explain the 5 ethical principles in CIMA's code of ethics
42. CIMA's code of ethics is based on the IFAC's standard ethics code
43. Identify the ethical principles in CIMA's code of ethics that have been breached in a given example scenario
44. Understand what a code of ethics is and what it might contain
45. What is an ethical conflict?
46. Ability to understand examples of ethical conflicts
47. CSR definition
48. Traditionalist and modernist views on CSR
49. Criticism of CSR
50. Benefits of good CSR

+ Additional reading

Here are some suggestions on external material that you can use to improve your knowledge. Try going through the UK corporate governance code if you have enough time.

1. Re-inventing finance for a digital world whitepaper by CGMA [[Article](#)] [[PDF](#)]
2. 2018 UK corporate governance code highlights by FRC [[Article](#)] [[PDF](#)]
3. THE UK CORPORATE GOVERNANCE CODE by FRC [[Article](#)] [[PDF](#)]
4. The UK corporate governance code – 2018 Corporate governance reforms by KPMG [[PDF](#)]
5. Governance in brief – FRC issues new UK Corporate Governance Code by Deloitte [[PDF](#)]
6. Terms of reference for the nomination committee by The Chartered Governance Institute of UK and Ireland [[Article](#)] [[PDF](#)]
7. Terms of reference for the remuneration committee by The Chartered Governance Institute of UK and Ireland [[Article](#)] [[PDF](#)]
8. Terms of reference for the audit committee by The Chartered Governance Institute of UK and Ireland [[Article](#)] [[PDF](#)]
9. Code of ethics at a glance by CIMA [[Article](#)]
10. CIMA's code of ethics [[PDF](#)]

Trial version ends here. The rest is only available in the full version.

Refer to the [index](#) section below for all the topics available in the full version.

Purchase

Index

Here is a list of all the topics and sub-topics in the entire note pack. If you are using a digital copy, you can try using the **“Find”** option to easily find references to a certain keyword you are looking for.

Try pressing the **“Control key” + “F key”** (**“Command key” + “F key”** on mac) on your keyboard to use the find option.

Welcome	3
License	3
How to read	3
Using the google docs online version	4
Using the google docs app	4
Download a PDF version	4
Print a PDF copy	5
Included things	5
Contents	5
Lessons	5
Changelogs	5
Components	6
Definitions	6
Introductions	6
Potential exam points	6
Notes	7
Sidenotes	7
Links	7
Additional reading	7
Contents	8
CIMA syllabus	9
E1: Managing Finance in a Digital World	11
E1 Exam	13
Resources	14
CIMA research papers and articles	14

Creating a vision for future series	14
Re-inventing finance for a digital world	15
Other CGMA whitepapers and articles	15
CIMA official study text	15
Other resources	16
Lessons and the syllabus	16
Exam weightings	17
L1. Role of the finance function	20
Introduction	20
The new norm	20
Organizations and their operating environments	21
Business sectors	21
Business types	22
Profit-oriented organizations	22
Not-for-profit-oriented organizations	23
Objectives of Profit-oriented and Not-for-profit-oriented organizations	23
Co-operatives (Mutual organizations)	23
Multinational corporations (transnational corporations)	23
Public services	24
Non-Governmental Organizations (NGOs)	24
Effect of business types on the finance function	24
Mission, vision, and objectives	25
Vision	25
Examples	25
Mission	26
Key areas	26
Examples	26
Objectives	27
SMART Objectives	27
Functions of objectives	27
Objectives hierarchy	28
Financial and non-financial objectives	28
Critical Success Factors (CSFs)	29
Key Performance Indicators (KPIs)	29

CSF vs KPIs	30
Business Environment	30
Micro environment (task environment)	31
Macro environment (general environment)	31
The digital world	31
Technological connectedness	32
Stakeholders	33
Stake	33
Shareholders vs stakeholders	33
Types of stakeholders	33
Internal stakeholders	34
Connected stakeholders	34
External stakeholders	35
Stakeholder conflicts	35
Stakeholder management	36
Criticisms of the power matrix	37
How the finance function creates and preserves value	37
Value	37
Economy, Efficiency, Effectiveness	38
The role of accountants in a digital world	38
The functions in organizations	39
What is the finance function	39
Key roles of the finance function	39
Basic activities of finance – Information to impact framework	40
The value matrix of the finance function	41
The value finance brings to an organization	44
Key activities of finance function	44
Planning	45
Forecasting	45
Resource allocation	45
Performance management	46
Control	46
Financial reporting	46
Ethics in finance function	47
Corporate governance	47

Separation of ownership and control	47
Agency problem	48
Risk of poor corporate governance	48
Approaches to corporate governance	50
US Sarbanes-Oxley Act (SOX)	50
The UK corporate governance code	51
Principles in UK corporate governance code	52
Board	52
Annual General Meeting (AGM)	53
Roles in UK corporate governance code	53
Chief Executive Officer (CEO)	53
Chairman	53
Executive Directors	54
Non-Executive Directors (NEDs)	54
Senior Independent Director (SID)	55
Committees in UK corporate governance code	56
Nomination committee	56
Remuneration committee	57
Audit Committee	58
Committee Summary	59
Ethics	60
Advantages of being ethical	61
CIMA's Code of Ethics	61
Corporate code of ethics (Code of conduct)	62
Ethical Conflicts	63
Corporate Social Responsibility	64
Types of CSR strategies	65
Benefits of CSR	66
Arguments against CSR	67
Corporate Digital Responsibility	67
+ Potential exam testing points	68
+ Additional reading	70

Trial version ends here. The rest is only available in the full version.

The rest of the topics are listed below

L2. Activities of finance professionals	72
Introduction	72
The Information to Impact framework	73
Assembling information	75
Data and information	76
Quantitative vs Qualitative information	76
Quantitative information	76
Qualitative information	76
Financial and non-financial information	77
Quality of information	79
Collecting data	79
Data sources	80
Internal data sources	80
External data sources	81
Environmental Scanning	82
Cleansing data	82
Connecting data	82
Analyzing for insight	83
Analyzing quantitative information	84
Advising to influence	84
Information overload	85
Applying for impact	85
Business partnering	86
Business partnering skills	86
+ Potential exam testing points	87
+ Additional reading	88
L3. Technology affecting business and finance	90
Introduction	90
Industrial Revolutions	90
History of the Industrial Revolution	90
4th industrial revolution	92
Key features of the 4th industrial revolution	93
Characteristics of the 4th industrial revolution	93
Changes caused by the 4th industrial revolution	94

Key technologies driving the 4th Industrial revolution	94
Cloud computing	94
Key points	95
Cloud types	95
Advantages and Disadvantages of cloud computing	96
Big Data	97
Main characteristics of Big Data	97
Data sources of big data	98
Structured data vs Unstructured data	98
Data Analytics	99
Key impacts of data analytics	99
Benefits of data analytics	99
Process automation	100
AI	100
Machine learning	101
Cognitive computing	101
Data visualization	101
Popular data visualization tools	102
Advantages and Disadvantages	103
Internet Of Things (IoT)	104
3D Printing	104
3D Printing process	105
3D Printing Common usages	106
Advantages and Disadvantages of 3D printing	106
Distributed Ledger Technology (DLT)	107
Blockchain	107
Blockchain functions	107
Key points	108
Cryptocurrency	109
Blockchain features	109
Mobile Technology	109
How mobile technology impacts organizations	110
How mobile technology impacts the industries	110
+ Potential exam testing points	111
+ Additional reading	112

L4. How the finance function uses digital technology	114
Introduction	114
What is finance function	114
Core modernization tools and exponentials	115
New technologies and their use in the finance function	116
Cloud computing	116
Big data and Analytics	116
Elements that are impacted by big data	117
Importance of big data in internal audit	117
Process automation	117
Risk of automation	117
Advantages and Disadvantages of process automation	118
Artificial Intelligence	119
Data visualization	119
Benefits of data visualization	120
KPIs (Key Performance Indicators)	120
KPI Example	121
Blockchain	121
Advantages and Disadvantages of blockchain	122
Blockchain and Finance function	123
Financial reporting	123
Cross-border payments	123
Smart contracts	123
Security and Traceability	123
Other benefits of blockchain in finance and accounting	123
IoT	124
Mobile technology	125
Advantages for businesses	125
3D Printing	126
Digital mindset	127
Digital mindset definition	127
Key digital skills	128
Basic digital literacy	128
Technology know-how	128
Mindset and behaviors	129

Summary	129
The 5 Keys to a Digital mindset	130
Change adept organizations and growth mindset	131
Automation and the Finance function	131
Types of human-machine collaboration	132
Skills required by the finance professionals	133
Garbage In Garbage Out (GIGO)	134
Automation paradox	134
Ethics of technology usage	135
Ethical considerations	135
Practical examples of corporate ethical considerations	136
Corporate Digital Responsibility (CDR)	136
General principles in CDR	137
Legal considerations of technology usage	138
General Data Protection Regulation (GDPR)	138
GDPR Principles	138
GDPR individual rights	139
GDPR Controllers and Processors	141
Controllers	141
Processors	141
+ Potential exam testing points	142
+ Additional reading	144
L5. Data and the finance function	146
Introduction	146
Data and information in a technological world	147
Context dependant nature of Data and Information	147
Quality information	148
Information for decision-makers	149
Strategic decisions	150
Tactical decisions	150
Operational decisions	150
Technology producing data	151
Enhancing data for decision makers	152
Benefits of using data for decision-makers	152
Using Data and technology for sales and marketing	153

Data requirements for marketing	153
Data requirements for marketing mix	154
Other data requirements for the marketing function	155
Marketing data sources	156
Web crawlers (Spider Bots)	156
Using Data and technology for operations	157
Benefits of data for operations	157
Digital assets and DAMs	158
Creating value from digital assets	158
Digital Asset Management System (DAM)	159
Features of a DAM system	159
Benefits of a DAM system	160
Data protection and privacy	161
Assessing data security	161
Sound data management	162
Chief Data Officer (CDO)	162
Culture	162
Training	162
Data strategy	163
+ Potential exam testing points	164
+ Additional reading	165
L6. Usage of data in Creation and Preservation of value	167
Introduction	167
Data strategy and planning	168
Data strategy	168
Feedback	168
Data engineering, extraction and mining	170
Extraction, Transformation and Loading (ETL)	170
Main functions in an ETL system	170
Extract	170
Transform	171
Load	171
Business Intelligence (BI)	171
BI stacks	172
BI and new technologies	173

Data modeling, manipulation and analysis	173
Data modeling	173
Stages in data modeling	174
Advantages of data modeling	174
Data manipulation	175
DML	175
Data analysis	176
Big data and its impact	176
Challenging characteristics of big data	176
Volume	177
Velocity	177
Variety	177
Veracity	177
Data science	178
Data scientists	178
Data scientists and Finance professionals	178
Hadoop	179
Communication of data and insight	179
Data visualization	180
Importance of data visualization	180
Effectiveness of data visualization	181
+ Potential exam testing points	182
+ Additional reading	183
L7. Shape and structure of the finance function	185
Introduction	185
Transformation of the finance function	185
Organizational structures	186
Mintzberg's theory on organizational structure	187
Organizational configurations by mintzberg	188
Key coordination mechanisms	189
Typical/Traditional organizational structures	190
Entrepreneurial structure	190
Functional structure	191
Divisional structure (Product-based structure)	192
Geographic structure	193

Matrix structure	195
Structural dimensions of an organization	196
Centralization and decentralization	197
Centralized structure	197
Decentralized structures	197
Scalar chain and span of control	197
Scalar chain	198
Span of control	198
Tall or Flat structures	198
Tall structures	199
Flat structures	199
Organizational boundaries	199
Impact of technology on the structure of the finance function	199
Other organizational developments	202
Shared Service Centres (SSCs)	202
Benefits of SSCs	203
Limitations/Disadvantages of SSCs	203
Outsourcing (BPO)	204
Service Level Agreements (SLA)	205
Benefits of outsourcing	205
Limitations/Disadvantages of outsourcing	205
Virtual organizations (Network organizations)	206
Offshoring (Relocation)	206
Advantages of offshoring	206
Limitations/Disadvantages of offshoring	207
Alliances	207
Transaction costs	207
Transaction cost theory	208
Degree of impact on transaction costs	208
Reasons for the transaction costs	209
Business Process Reengineering (BPR)	209
+ Potential exam testing points	210
+ Additional reading	210
L8. Activities in different levels of the finance function	212
Introduction	212

Level 4 – Finance operations	216
Financial reporting	216
Financial statements	217
Types of financial statements	217
Uses of financial statements	218
Important ratios generated from financial statements	219
Management accounting	220
Cost schedules	220
Budgets	221
Variance reports	222
Management accounting vs Financial Accounting	222
Treasury management	223
Key roles of treasury management	223
Working capital management	224
Working capital components	224
Cash management	225
Financing	225
Debt	225
Equity	226
Financial gearing	226
Tax	226
Tax avoidance	226
Tax evasion	227
Tax mitigation	227
Foreign currency management	227
Internal audit	227
Purpose of the internal audit	228
Scope of internal audit	229
Fraud	229
Causes of fraud	229
Indications of fraud	230
Impact of fraud	230
Limitations of internal audit	230
Level 3 – Specialist areas	231
Financial Planning and Analysis (FP&A)	231

FP&A responsibilities	232
Taxation	232
Tax compliance	233
Tax planning	233
Project management	233
Project appraisal	234
Project appraisal activities	235
Level 2 – Strategic partnering for value	235
Communicate insight to influence users	236
Business partnering	236
Level 1 – Strategic leadership of the finance team	237
Activities of CFOs	237
Skills required for a CFO	238
Technological impacts on the activities of the finance function	239
Automation and the diamond shape	239
Opportunity or Threat?	241
Opportunities offered by technology	242
+ Potential exam testing points	243
+ Additional reading	243
L9. Operations and finance	245
Introduction	245
The role of the operation function	246
Operation process	246
4Vs of operations	248
Porter's value chain	248
Primary activities	249
Secondary activities	249
Process design	250
Process map	250
Product and service development	251
Finance function in product development	251
Qualities unique to services	252
Supply chain management	253
Upstream and Downstream	254
Cousin's strategic supply wheel	255

Supplier relationship	256
Technologies for supplying	256
Material requirement planning (MRP1)	256
Usage of Material requirement Planning	257
Manufacturing Resource Planning (MRP2)	257
Enterprise Resource Planning (ERP)	257
Quality management	258
Quality assurance	258
Quality control	258
Quality-related costs	259
Operation improvement	259
Statistical Process Control	260
Total Quality Management (TQM)	261
Fundamental principles of TQM	261
Kaizen	261
Characteristics	261
Tools in kaizen	262
Six Sigma	262
Lean thinking	262
Characteristics of Lean thinking	263
Benefits of Lean thinking	263
Limitations of lean thinking	264
Just In Time (JIT)	264
Requirements for a JIT approach	264
Reverse Logistics	265
Benchmarking	266
Operation and finance	266
Purchasing (procurement)	266
Production	267
Operation KPIs	268
+ Potential exam testing points	269
+ Additional reading	270
L10. Marketing and sales and finance	272
Introduction	272
The role of marketing function	272

Push and Pull marketing	273
Marketing environment	273
PESTEL	273
SWOT	275
Marketing mix	275
Product	276
Product levels	276
Core product	276
Actual product	276
Augmented/Extended product	276
Price	277
4Cs of price	277
Pricing tactics	277
Market penetration	277
Market skimming	277
Dynamic pricing	278
Price discrimination	278
Going rate price	278
Captive product pricing	278
Perceived quality pricing	278
Price leadership	279
Predatory pricing	279
Promotion	279
AIDA Sequence	279
Place	280
Kotler's 3Ps	280
People	280
Processes	280
Physical evidence	281
Marketing techniques	281
Market research	281
Primary research	282
Secondary research	282
Market segmentation	283
Segmentation bases	283

Segment validity	283
Market targeting	284
Targeting strategies	284
Undifferentiation (mass)	285
Differentiation	285
Concentration	285
Market positioning	285
Porter's positional strategies	285
Marketing strategies	286
Guerilla	286
Viral	286
Experiential	287
Digital marketing	287
Product	287
Product development	287
Product life cycle	287
Stages in product life cycle	288
Introduction	288
Growth	288
Shakeout	289
Maturity	289
Decline	289
Big data and marketing	289
Use of big data in marketing	289
Demand forecasting	290
Customer experience enhancement	290
Monitoring multi-channel transactions	290
Identify customer preferences	290
Market segmentation and customization	291
Product/Service development	291
Decision-making	291
Customer feedback	291
Marketing and Finance	291
Finance function and the other functions in the context of KPIs	292
Marketing KPIs	292

+ Potential exam testing points	293
+ Additional reading	294
L11. HR and finance	296
Introduction	296
Role of HR	296
Career Management	297
Hard vs Sof HRM	297
Recruitment	297
Determining vacancies	298
Job analysis	298
Job description	298
Person specification	299
Source candidates	299
Selection	300
Application forms	300
Selection interviews	300
Selection tests	301
Assessment centers	301
References	302
Induction	302
Training and Development	302
Training	303
Development	303
Training and Development process	303
Training methods	304
Training evaluation	304
Benefits of Training and Development	305
To individuals	305
To organization	305
Performance management	306
Steps in performance management	306
Appraisals	306
Lockette's barriers	307
Motivation	308
Incentives and practices	308

Psychological contracts	308
Employee involvement	308
Workforce flexibility	308
Reward systems	309
Maslow's hierarchy of needs	309
Rewards	311
Reward methods	311
Basic pay	311
Performance-related pay	311
Profit sharing schemes	312
Share options	312
Benefits	312
Termination	312
Redundancy	312
Dismissal	313
HR and Finance	313
HR KPIs	314
+ Potential exam testing points	315
+ Additional reading	316
L12. IT and finance	317
Introduction	317
Role of IT	317
Information systems (IS)	318
Information technology (IT)	318
IT function	318
IT Systems	318
MIS	319
EIS	319
DSS	319
TPS	320
ES	320
OAS	320
Knowledge and IT	320
Data, information, and Knowledge	320
Knowledge Management Systems	321

IT trends	322
IT infrastructure	322
Enabling change	322
Geo-dispersed teams	323
Increase in remote working	323
Formation of virtual teams and organizations	323
Challenges of virtual teams	324
IT and business relationships	324
Customer Relationship Management Systems (CRMs)	325
Features of CRMs	325
Benefits of CRMs	325
IT benefits and costs	326
CBA	326
Initial vs Running costs	326
Benefits	327
Privacy and Security	327
Systems architecture	328
Centralized architecture	328
Decentralized architecture	329
Data flows	330
Big data and IT	330
IT and finance	331
IT KPIs	332
+ Potential exam testing points	333
+ Additional reading	333
Index	335
Changelog	354

Changelog

We add new content, modify the content, and update content based on new information. For example, we might add new potential exam testing points based on our student feedback. Here is a list of changes we made from the initial publication.

Date	Version	Changes
2022/08/12	0.10	Notes added
2022/09/27	0.11	Notes completed
2022/09/29	0.3	Welcome section added
2022/09/29	1.0	Initial publication
2022/10/01	1.1	Formatted the L1 and added new content, references, resources, potential exam testing points, and additional reading links
2022/10/06	1.2	Finished formatting
2022/10/07	1.3	Added important links
2022/10/07	1.3 +	Changed inner left cover